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BUSINESS CONDITIONS & FORECASTS

UNIVERSITY OF WASHINGTON

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AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

MAY 24, 1940

The President's Scratch-Pad

¶ This is the time of year when the newly graduated college men begin to make their appearance in company employment offices. Personnel and employment departments are now preparing for the annual descent of the young hopefuls. Applications will be taken, there will be interviews, and, finally, some of the applicants will be hired.

¶ There is no better time than the present for companies to consider some of the responsibilities they have in connection with this matter of the college man. What is going to be the experience of these young people in their first few years of contact with business? How are they going to be handled? Is a thoughtful, considerate management going to start them properly on useful careers? Or, is this highly plastic and valuable human material going to be spoiled by a crass, short-visioned business community?

¶ In view of experience and enlightened discussion on the subject, the hardboiled attitude of certain business men of "treat 'em rough from the start and harden 'em up" can no longer be justified. It is now apparent that the tragedies and abuses caused by this school of thought (fortunately now disappearing) have been truly appalling.

¶ In certain companies, considerable thought has been given to the whole matter of selection and induction of college men. One concern that immediately comes to mind is the General Electric Company, whose program was described at the recent AMA Marketing Conference by S. R. Sredenschek and E. O. Shreve.

¶ The General Electric Company has a highly developed method of choosing its new men, of uncovering their latent abilities and of effecting a smooth transition from academic to business life.

¶ There is another aspect of this question that deserves attention, namely, cooperation between educational institutions and business with a view to training students more in line with the needs of business. Many concerns work very closely with the colleges, high schools and trade schools. Their executives meet with the faculty, talk to the students, invite the students to visit the plant, participate in cooperative training programs, etc.

¶ I seriously doubt whether industry generally realizes how anxious the educational

institutions, for the most part, are to train their students in such a way as to make them most useful to business. Thus, for example, a large number of colleges, trade schools, business schools and high schools are members of the AMA. Members of the faculties of these schools attend AMA meetings, read its literature, and in that way keep up to date consistently on industry's problems and personnel needs. In a number of cases, AMA materials are used in classwork, with the result that students are given a more realistic notion of business problems.

¶ The very fibre of industry is its personnel. In the colleges and universities, we see an important part of this fibre actually in the making; there we see plastic minds in the process of being molded; industry stands to gain a great deal by exerting influence to mold these minds more to its needs.

Alvin E. Dodd

Annual Business Meeting on June 6; Members Invited to Review Progress

All members of the AMA are cordially invited to attend the Annual Business Meeting of the Association to be held on Thursday, June 6, at the Hotel Astor, New York City. These yearly meetings are intimate AMA "family" gatherings for the purpose of reviewing the Association's activities of the past year; this one will be an occasion of interest to all members who can attend. In effect it is your "stockholders" meeting, so if you are contemplating a trip to New York in the near future, set the date to coincide with this meeting.

The meeting will be divided into two sessions: The first will convene at 5:30 in the afternoon and will be devoted to a discussion of the Association's business affairs, in which we would like you to participate. President Dodd will present the Annual Report, new officers and directors will be elected, and other matters will be discussed as required by the organization's By-Laws. As soon as printed, a copy of the Annual Report will be mailed to all members.

BUSINESS OUTLOOK

Markets and Business Made Jittery By Swift German Advance

Thoroughly aware of the profound economic and political effects that the loss of the war by the Allies would have for the United States, American business has displayed considerable, but justifiable, nervousness at the turn that the European conflict has taken. The seemingly inexorable advance of the Nazis has not only overawed the world but greatly shaken the confidence that was placed in the defensive powers of the Allies. It is now clear that Germany is out to end the war during the present summer; it is also clear that if the Allies can stem the German advance, their chances of ultimate victory will be greatly increased, because, while Germany is better equipped from a military standpoint, the Allies are rapidly increasing their strength and

(Continued on back page)

The second portion of the meeting will be a dinner session of the Board of Directors at 7:00 p.m., to which all AMA members who are in attendance are invited to stay. Philip Cabot, Professor of Business Administration of Harvard University will talk on "Democracy and the Profession of Management."

All who have had the privilege during the past few years of attending the weekend Business Executives Discussion Group which Professor Cabot has conducted at the Harvard Graduate School of Business Administration know what an interesting evening is ahead of us. With a rich and successful experience as a business executive before taking up his work at Harvard, he has "a useful way of looking at things" that makes him one of the most inspiring business thinkers of our times.

Enclosed with this issue of the NEWS LETTER is a self-addressed postcard with which members can make their reservations. Please send the card in as promptly as possible.

BUSINESS CONDITIONS & FORECASTS

VOL. 13, No. 5 — PREPARED MONTHLY BY THE AMERICAN MANAGEMENT ASSOCIATION —

	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	The spread of the war and the way its tide has swung has produced a very jittery feeling in market and business circles; but if the Allies are able to withstand the German assault, the U. S. is likely to benefit temporarily; there will be increased exports and large domestic armament expenditures (May 18).	Augmented war orders from abroad, plus intensified armament expenditures at home—all superimposed on normal recovery forces—indicate that the boom is on its way; the intensive stage of the war should drive expansive and inflationary elements with explosive force (May 18).	The panic that has occurred in the markets as a result of the turn of events in the war acts as a force for bad business; the break so far may be sufficient to arrest the general industrial rise that started two weeks ago; however, from the longer-term outlooks, the conclusion seems warranted that business will recover from the shock (May 18).
Money and Credit	The fact should not be overlooked that wartime inflation is likely to develop sooner or later; under any circumstances, the prospect is that national income this year will exceed last year's income and that it will be larger than in any year since 1929 (May 4).	The Allied holdings of dollar bank balances, U.S. securities, and gold reserves totaled roughly 10 billion dollars at the outbreak of the war, or about twice that of 1914; the question whether credit will be extended can better be answered when the first proposal comes up (May 18).	When war came there was an avalanche of bond sales, notably government bonds; banks now own more of the government's debt than ever before. Many economists say that the day is here when interest rates must rise from artificially low levels of recent years (which is another way of saying that bond prices must decline) (May 11).
Security Markets	The break in the market has carried prices sufficiently low to indicate a reversal of the main trend; for the present a bear market must be considered in progress. However, considering the extent to which markets are swayed by the war, favorable developments could lift prices as readily as unfavorable ones operate to depress them (May 16).	The rapidity of the market decline and its attendant large volume, without a rally of any importance, indicates the probability of a badly oversold situation; once support is found, normal expectancy is for a corrective rally, which could easily become the first upswing in a new bull market (May 18).	Markets have fallen back with the Allies this week; but just why investors should take their emotions out on securities is not clear; now, if the stock market is to be taken at its face value, we are in for a bear market for business; the market has an almost magical power of making its predictions come to pass (May 18).
Production	Provided that Germany does not win a quick victory, Allied war purchases here are likely to increase even further; the invasion of the Low Countries will serve to increase exports of steel, iron, coal, textiles and a number of other products from the U.S. (May 18).	The Allies have catalogued the whole American productive field, even down to the smaller plants; this means that they can place huge contracts in the aggregate; the steel industry, as well as aviation, machine tools, chemicals, copper, electrical equipment, and lubricating oil lines, will experience substantial gains (May 18).	To the steel industry a broad-scale war means orders, as well as increased defense appropriations in the U.S. The steel rate in response to new orders and expected orders has jumped more than 4 points to 70% of capacity. The U.S. "preparedness" programs holds important promise for heavy industry (May 18).
Distribution	Department store sales during the week ended May 4 were 4% larger than a year ago as compared with no change in the preceding week; General Motors reports that sales to consumers in April were 4.5% larger than in March and 37.9% larger than in April last year (May 18).		The break in stocks may slow down many semi-luxury items such as autos; at this juncture with new car stocks at an all-time high, and production running neck-and-neck with sales, the position of the industry is critical (May 18).
Construction	Building contracts in March showed less than the usual seasonal increase from the February volume and were smaller than in the same month last year; this means that manufacturing cannot count on any great support from the building industry in the immediate future (May 18).	The projected armament program and the Allied demand for U.S. products may cause new activity in the field of industrial construction; this would have a profound effect on supply lines (May 18).	Residential building may also fall off now that the stock market has cracked; there is understandable hesitancy to undertake long-term commitments (such as mortgages) in war times—husbands may be called to the colors and wives would be left holding the mortgage (May 18).
Agriculture	The Department of Agriculture reported that conditions on May 1 indicated a winter wheat crop of 460,000,000 bu., as against 426,000,000 bu. indicated on April 1 and 563,000,000 bu. harvested last year; the Department has fixed the acreage for 1941 at the same figure as for 1940 (May 18).		The indicated wheat crop will be about 100,000,000 bu. less than last year and 111,000,000 under the average from 1929 through 1938; selling, which has caused a drop of 25¢ a bu., probably has been overdone, as even a modest export demand would send quotations soaring (May 18).
Commodity Prices	In the week ended May 4, the price index of manufactured goods declined to 86.3. The price index of farm products also declined, but to a greater extent, so that the purchasing power index declined to 78.8 from 79.0 a week ago (May 18).	The longer the war continues (and spreads), the more will diversion or destruction of supplies, delivery difficulties, and deep-seated inflationary forces tend to lift prices (May 4).	The dive in commodity prices has put a temporary crimp at least in the purchasing power of farmers and other producers of raw materials; but if commodities steady, no matter what stocks do, it will be an indication that business men regard this emotional liquidation as a passing scare (May 18).
Labor and Wages	The prospect is that the unemployment situation will not show much improvement until after the middle of the year; during the last half of the year, however, unemployment should show a downward trend; the number unemployed in March was 10,552,000 compared to 11,420,000 in March last year (May 18).		
Foreign Trade and Conditions	Both Holland and Belgium were important customers of this country; they were especially heavy buyers of foodstuffs and raw materials, particularly cotton; this trade will be eliminated, but it does not mean that the total export trade of the United States will suffer (May 18).	The Allies have suffered a setback; but this does not signify their defeat; the question of how much damage Nazi air attacks will do in England, however, will be more important to watch. As yet the Allies have hardly begun to use their resources (May 18).	American export trade has been hard-hit by the fate of the Low Countries; U.S. exports to the three nations were \$161,000,000 in 1939, and since the war began we had displaced England as their major supplier (May 18).

Dun's Review

After four months of recession, the trend of industrial activity has begun to point upward; the turn occurred early in May despite developments in Europe which were highly unsettling to stock and commodity markets; at mid-May, indexes of trade and industry were generally somewhat above April (June).

Bank clearings (22 cities) totalled \$23,382,650 in April, 0.9% below March, but 7.3% above a year ago; the adjusted Insolvency Index (Failures) stood at 67.4 in April, compared with 61.4 (revised) in March and 73.1 in the previous April (June).

The industrial stock price average (Dow-Jones) dropped out of the narrow range to which it had held for eight months as heavy selling followed the opening of hostilities in Holland and Belgium; corporate issues have increased after a decline in March (June).

The F.R.B. index of industrial output (adjusted) was 102 in April against a revised figure of 104 in March; led by the volatile steel industry the trend in early May was upward, breaking the four-month recession which had carried activity back to the level of last Summer (June).

The U. S. Trade Barometer, adjusted for seasonal variation but not for changes in Easter, rose from 91.2 in February to 95.6 in March; highly sensitive to weather conditions, sales were spotty during April but showed more buoyancy in the first part of May (June).

Building permit values for the month of April went substantially ahead of the March level, in line with the usual seasonal trend, and sharply higher than for the corresponding 1939 month; volume for 215 cities was \$122,583,683, an increase of 28.7% over last April's total of \$95,268,241 (June).

After a stronger tone during April and steadiness through the first two weeks of May, commodity prices reacted sharply to war news; "industrial" commodities were very little changed but weakness in agricultural export commodities lowered the Daily Wholesale Price Index to 116.51 on May 15, a new low for 1940 (June).

Exports of U. S. merchandise declined about 8% from March to \$315,000,000 in April, as increased shipments to Great Britain, France, and South America were offset by a sharp drop in trade with Scandinavian countries (June).

Cleveland Trust Company

There are some indications that an upturn in business activity may now be in the making; recently there have been increases in new orders in several lines of industrial goods; in general the situation is that business is moving sideways at about the levels reached last Autumn with indications of a developing upturn (May 15).

Recent figures show great increase in production of gold both here and abroad; most of this gold comes to this country, and in addition we are buying stocks the world accumulated in earlier years; the question is what will happen when we have acquired all the national accumulations and are taking all the current outputs (May 15).

Both business activity and security markets will be advancing during the second half of this year if they follow the courses marked by their averages in the election years of the past century; but these records are of doubtful usefulness, as individual election years showed wide divergence from the general pattern (May 15).

Last December, the index of business activity based upon industrial production was 5.5% below normal; the preliminary figure for April is 26.0% below normal, which is lower than the level of last July. No important decreases in the volume of production are now being recorded (May 15).

Railroad car loadings of miscellaneous freight, which mostly consist of manufactured goods, have continued to decline, and the index, after adjustments for typical seasonal changes, reached its lowest figure for this year, in the last week of April (May 15).

The war will operate to make many manufacturing concerns maintain the inventories of goods and supplies which they hurriedly built up last Fall; they fear price advances, and while some of these developed since the war became more active, and others are in prospect, they have not as yet become serious (May 15).

It now seems probable that increased orders will be placed in this country by warring nations for both aircraft and land vehicles; these prospects indicate that our already over-speeded machine tool industry will be called upon for still further expansions (May 15).

National City Bank

Business reports during April have shown that the downward trend of the past few months is finally receiving a check; the rate of decline in industrial production slackened, and it would appear that production and consumption are getting back into balance (May).

Excess reserves of member banks have reached a record high of \$6,120,000,000, and there is little prospect of a turn in the trend; so long as the supply of surplus funds is not only unprecedentedly large, but still increasing, it constitutes a powerful support of easy money rates (May).

New corporate financing last month was in good volume, aggregating approximately \$260,000,000. Of this amount, about \$200,000,000 was refinancing and the rest new capital, the latter making the best showing for any month since April a year ago. There was also a marked increase in equity financing (May).

The aggregate of industrial production has dropped little in April, after three months of sharp decline; according to preliminary data, the Federal Reserve Board's index for the month will be 101 or 102 compared with 103 in March and a peak of 128 in December (May).

Retail trade is one of the lines from which less favorable reports have been heard; this is largely due to unseasonably cold and wet weather which has proved a handicap (May).

Building contract awards were disappointing during the first quarter, and continued behind a year ago during the first three weeks of April, due to the low level of public works awards since the 1938 P.W.A. program ran out; however, a good seasonal improvement has developed in private residential building (May).

Farm income in the first quarter was 12% above the same period of 1939; the advance in farm product prices, particularly wheat, corn, and hogs, will have a further favorable effect; government payments, however, have declined rapidly from the level of the winter months (May).

The war news has caused a definite firming of commodity prices; one of the deductions to be drawn is the likelihood that inventories will be maintained at fairly full figures; rubber, paper, and livestock prices have been directly affected (May).

The latest figures, for March, show that employment in aircraft manufacturing was nearly two and one-half times the 1937 average, while in shipbuilding and machine tools it was around 35% larger (May).

The support given to the steel industry by export orders has been a major factor in slowing down the decline in operations; exports of steel, exclusive of scrap, in March were nearly three times the tonnage of a year earlier; exports of all industrial products have continued to expand (May).

AMA's Activities Reviewed at Business Meeting

Sixty executives representing all phases of the Association's activities gathered at an informal meeting in New York on June 6 to survey the activities of the AMA during the past 12 months and to discuss plans for the coming year. They heard President Alvin E. Dodd read his annual report to the membership and listened to Philip Cabot, veteran professor and executive speak on "Democracy and the Profession of Management."

In his report, a copy of which will be sent to all members of the Association, Mr. Dodd was able to point to much tangible progress made by the AMA during the past 12 months. He stated that the war had not appreciably affected management during the period that the report covered but that its profound effect would inevitably be felt in the future.

"The very lack of upheavals in the conduct of our business here," he said, "is one of the greatest testimonials that can be paid to our profession of management."

Professor Cabot stated that the learned professions of medicine, the law, teaching, and the ministry, over the course of the years, have lost their former close touch with the people. "But the business man," he said, "if he chooses, can come closer to the lives of the people than any other professional man today."

AMA Has Active Year— Preparing for Another

Statistics on AMA activities over the past 12 months reveal that the Association was more active in all Divisions than in any period during its history. Gains were made in virtually every phase of the Association's work. It held more conferences and all were more widely attended than in previous years; its publications were more numerous and received wider circulation; the number of members increased over last year; and the number of inquiries handled by the Research and Information Bureau was larger than last year.

The financial position of the Association also improved. Guided by the Finance Committee, the Association kept well within a carefully planned budget.

Executives from Wide Variety of Industries Named Officers and Directors of AMA

The names of a group of leading executives representing all phases of management in various industries have been announced as the new officers and directors of the AMA. The announcement was made by the nominating committee at the Association's Annual Business Meeting, on June 6.

The new divisional vice presidents are as follows:

Finance and Accounts—Ernest F. Rumpf, Vice President, Pittsburgh Coal Company, Pittsburgh, Pa.

Personnel—Harold F. North, Industrial Relations Manager, Swift & Company, Chicago, Ill.

Production—D. F. Carpenter, Director of Manufacture, Remington Arms Company, Inc., Bridgeport, Conn.

Consumer Marketing—H. R. Chapman, Vice President, New England Confectionery Company, Cambridge, Mass.

Insurance—W. A. Sullivan, Manager, Insurance Department, Loose-Wiles Biscuit Company, Kansas City, Mo.

Two vice presidents who served last year are to continue in their posts. They are the Vice President of the Office Management Division, Norman C. Firth, Managing Editor, *Dun's Review*, New York, N. Y., and the Vice President of the Industrial Marketing Division, E. O. Shreve, Vice President, General Electric Company, Schenectady, N. Y.

Directors to replace the group whose terms have expired were named as follows: Jay C. Hormel, President, Geo. A. Hormel & Co., Austin, Minn.; F. B. Flahive, Comptroller, Columbia Gas & Electric Corporation, New York, N. Y.; J. W. Dietz, Personnel Relations Manager, Western Electric Company, Inc., New York, N. Y.; Raymond S. Perry, Vice President, Ingersoll Milling Machine Company, Rockford, Ill.; Irwin D. Wolf, Vice President, Kaufmann Department Stores, Inc., Pittsburgh, Pa.; Ralph H. Blanchard, School of Business, Columbia University, New York, N. Y.; Walter C. Hill, President, Retail Credit Company, Inc., Atlanta, Ga.; Ralph Kelly, Vice President, Westinghouse Electric & Manufacturing Company, Pittsburgh, Pa.; H. H. Leonard, President, Consolidated Packaging Machinery Corp., Buffalo, N. Y.; L. C. Stowell, Executive Vice President, Underwood Elliott Fisher Company, New York, N. Y.; R. E. Gillmor, President, The Sperry Gyroscope Company, Inc., Brooklyn, N. Y.

Timely Booklet Issued By Princeton Section

The AMA wishes to call to the attention of its members a newly issued report of the Industrial Relations Section of Princeton University. The study is entitled "An Outline of Industrial Relations Policies in Defense Industries." The booklet is recommended because of the timely and practical guidance that it affords industrial relations executives, especially those in industries that are expanding rapidly as a result of pressure generated by the defense movement.

The Princeton Industrial Relations Section has already mailed copies to firms that cooperate in its work. Others who are interested may obtain a copy by writing to Princeton. The price of the booklet is 75¢ per copy.

The President's Scratch-Pad

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be made? Wise decisions on this problem may mean the difference between survival or extinction in the post-war world.

¶ **Conversion of Plants:** There are only two or three industries that are primarily immediately concerned in the defense program, but as the program reaches more developed stages the number of such plants will be increased. In the meantime, other companies should survey their facilities with a view to supplying these first-line industries and complementing their effort.

¶ **Priority of Goods:** It is when products considered essential to defense begin to take priority over those that are not essential that creaking will be heard in the industrial structure. Industry will be confronted with a coordination problem of tremendous proportions. Companies are especially advised to examine the position of their suppliers in this light.

¶ **At the End What?** While it should not be allowed to impede their defense work, companies should keep an eye to the time when the defense program is over. No matter how intense the situation becomes in the coming months it will be well to consider the company's position when the need for munitions has been filled.

¶ The AMA has already begun to consider some of these problems. The organization is in an excellent position to be of the greatest service to industry, and we have already begun to plan our program of the next few months to conform with industry's needs.

Alvin E. Dodd